

Message Text

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E.O. 11652: N/A

TAGS: ECON, EFIN, JM

SUBJECT: NEW IMF AGREEMENT

BEGIN SUMMARY:

1. ON MAY 9, FINANCE MINISTER BELL SUBMITTED TO THE HOUSE OF REPRESENTATIVES THE ESSENCE OF THE AGREEMENT NEGOTIATED WITH THE INTERNATIONAL FUND. ITS MAIN FEATURES INCLUDE AN IMMEDIATE DEVALUATION OF BOTH THE BASIC AND SPECIAL RATES OF EXCHANGE; ADOPTION OF A SINGLE RATE (SET AT US\$1.00 EQUAL J\$1.55) TO GO INTO FORCE ON MAY 10 IN PLACE OF THE DUAL RATE PREVIOUSLY IN EFFECT; ANNOUNCEMENT OF A FURTHER INCREASE OF 15 PERCENT IN THE VALUE OF THE U.S. DOLLAR TO BE SPREAD OVER A ONE-YEAR PERIOD; THE GOVERNMENT'S RECURRENT BUDGET WOULD BE BROUGHT INTO BALANCE IN THE CURRENT FISCAL YEAR, WHILE A SURPLUS WOULD BE ACHIEVED IN SUBSEQUENT YEARS; ANNOUNCEMENT OF A NEW WAGE GUIDELINE

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LIMITING THE WAGE INCREASE TO 15 PERCENT OVER A TWO-YEAR PERIOD; UTILITY RATES WOULD GO IMMEDIATELY BY 15 PERCENT; AND PERHAPS MOST IMPORTANTLY, A NEW TAX REFORM PACKAGE WAS INTRODUCED THAT IS EXPECTED TO YIELD AN ADDITIONAL J\$180 MILLION IN REVENUES DURING THE CURRENT FISCAL YEAR. THE IMF WOULD PROVIDE A US\$240 MILLION LOAN ASSISTANCE PACKAGE. END SUMMARY.

2. FOLLOWING THREE MONTHS OF HARD NEGOTIATIONS WITH THE IMF, THE ADMINISTRATION PRESENTED TO THE HOUSE ON MAY 9 THE SUBSTANCE OF THE AGREEMENT REACHED WITH THE INTERNATIONAL MONETARY FUND. THE PRESENTATION MADE BY FINANCE MINISTER ERIC BELL PROVIDED THE DETAILS OF A THREE-YEAR ECONOMIC ASSISTANCE PROGRAM TOTALING U.S.\$240 MILLION (EXCLUDING LOANS FROM THE IBRD, OTHER DONOR AND COMMERCIAL BANKS THE DOVETAIL WITH THE IMF CREDIT). THE UNDERSTANDING REACHED WITH THE FUND WILL NOW BE SUBMITTED TO THE MANAGING DIRECTOR AND THEN TO THE IMF BOARD, A PROCESS THAT COULD TAKE SIX TO SEVEN WEEKS. THE MINISTER INDICATED THAT THERE HAVE BEEN SERIOUS DISAGREEMENTS BETWEEN THE IMF AND THE GOJ REGARDING THE MAGNITUDE OF THE DEVALUATION REQUIRED AND THE CORRECTION OF THE IMBALANCE IN THE GOVERNMENT'S BUDGET.

3. THE GOVERNMENT'S PROGRAM IS DESIGNED TO REDUCE THE TOTAL LEVEL OF CONSUMPTION AND BALANCE THE CENTRAL GOVERNMENT'S RECURRENT EXPENDITURES; MAINTAIN THE GOVERNMENT'S EXISTING PROGRAMS DESIGNED TO PROMOTE EMPLOYMENT AND RAISE LIVING STANDARDS OF THE LOWER INCOME GROUPS (LAND LEASE, PIONEER FARMS, DEVELOPMENT OF COOPERATIVES, ETC.); STIMULATE OUTPUT AND GROWTH; AND CORRECT THE BALANCE OF PAYMENTS DISEQUILIBRIUM. MR. BELL SAID THAT THE GROWTH STRATEGY FOR THE NEXT UNCLASSIFIED

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FEW YEARS WILL BE TO REVERSE THE TENDENCY OF 1972-76 WHEN MOST OF THE JOB CREATION OCCURRED IN THE GOVERNMENT SECTOR WHILE THE PRODUCTIVE SECTORS RETRENCHED.

4. PURSUING THE PRINCIPLE OF THE MIXED ECONOMY, THE MINISTER SAID THAT THE GOJ WOULD SEEK TO CREATE AN ATMOSPHERE OF MUTUAL CONFIDENCE BETWEEN GOVERNMENT AND PRIVATE BUSINESS AND BROADEN THE PRODUCTIVE SECTOR THROUGH THE ATTRACTION OF FOREIGN INVESTMENT.

5. THE MAJOR FEATURES OF THE NEW PROGRAM ARE AS FOLLOWS:

A. UNIFICATION AND SUBSTANTIAL DEVALUATION OF THE EXCHANGE RATE: THE VALUE OF THE US DOLLAR IN TERMS OF THE BASIC RATE GOES UP IMMEDIATELY BY 48 PERCENT (FROM US\$1.00 EQUALS J\$1.05 TO J\$1.55); WHILE THE SPECIAL RATE GOES UP BY 15 PERCENT (FROM J\$1.35 TO J\$1.55). THE US DOLLAR WILL RISE BY ANOTHER 15 PERCENT OVER THE NEXT YEAR AT THE RATE OF 1 1/2 PERCENT PER MONTH OVER THE NEXT SIX MONTHS, THEN 1 PERCENT MONTHLY FOR THE BALANCE OF THE YEAR. THIS WOULD EVENTUALLY BRING THE NEW UNIFIED RATE TO J\$1.75 TO US\$1.00. THE NEW RATE WILL APPLY TO THE BAUXITE INDUSTRY, THEREBY RAISING ITS PROFITABILITY.

B. THE RECURRENT BUDGET WILL BE BROUGHT INTO BALANCE DURING THE CURRENT FISCAL YEAR, THEN SHOW A SURPLUS THAT WILL BE EXPANDED EACH YEAR TO HELP FINANCE THE INVESTMENT PROGRAM.

C. UTILITY RATES WILL GO UP IMMEDIATELY BY 15 PERCENT TO PUT THEM ON A SELF-SUSTAINING BASIS.

D. THE NEW WAGE GUIDELING WOULD LIMIT TO 15 PERCENT ANY WAGE INCREASES THAT CAN BE NEGOTIATED OVER A TWO-YEAR PERIOD. THIS 15 PERCENT IS AN AVERAGE FOR EACH ENTERPRISE: THE GOVERNMENT HOPES THAT HIGHER PAID EMPLOYEES WOULD BE HELD TO INCREASES OF LESS THAN 15 PERCENT TO PERMIT LOWER-PAID EMPLOYEES TO OBTAIN RAISES IN EXCESS OF THE AVERAGE FIGURE.

E. NEW TAXES AND INCREASES IN TAXES ON A LARGE UNCLASSIFIED

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NUMBER OF COMMODITIES INCLUDING GASOLINE, CIGARETTES, BEER, LIQUOR, AUTOMOBILES AND AUTOMOBILE LICENCES. EXAMPLES:

- CIGARETTE DUTIES WILL RISE FROM 130 PERCENT TO 232 PERCENT.
- SPIRITS: SPECIFIC DUTIES WILL DOUBLE.
- LICENCE DUTIES ON AUTOMOBILE ARE UP BY 50 PERCENT.
- THE TRAVEL DEPARTURE TAX WILL RISE FROM \$3 TO \$8 PER PERSON.
- GASOLINE TAX: DUTY UP FROM 166 PERCENT TO 220 PERCENT.
- COMMERCIAL TYPE VEHICLES WHICH WERE HERETOFORE TAXED AT 15 PERCENT WILL NOW BE TAXED AT 52-57 PERCENT, THE RATE APPLICABLE TO PRIVATE MOTOR CARS.
- THE EXISTING STAMP DUTY OF 10 CENTS ON CUSTOMS WARRANTS WILL BE INCREASED TO AN AD VALOREM DUTY OF 10 PERCENT APPLYING TO ALL IMPORTED GOODS EXCEPT THOSE IN THE "BASIC NEEDS BASKET" (E.G. DRUGS, FERTILIZERS, FOOD AND POL), GOVERNMENT IMPORTS AND IMPORTS FROM THE CARICOM.
- THE EXISTING DUTY ON CONSUMPTION GOODS WILL BE INCREASED FROM 10 PERCENT TO 15 PERCENT. THIS TAX APPLIES TO CLOTHING, FOOTWEAR, FURNITURE, FIXTURES, HOUSEHOLD TEXTILES, MAJOR HOUSEHOLD APPLIANCES AND EXPENDITURE ON PERSONAL CARE.
- A NEW TAX OF 10 PERCENT WILL BE IMPOSED ON THE AMOUNT OF HOTEL BILLS OTHER THAN THE PORTIONS RELATING TO ROOM COST.

F. OTHER ANNOUNCEMENTS WERE DESIGNED TO IMPROVE THE CLIMATE FOR THE PRIVATE SECTOR. THESE INCLUDE THE PROMULGATION OF A NEW INVESTMENT CODE, SPECIFIC RECOGNITION OF THE RIGHT OF BUSINESSES TO EARN A "REASONABLE RATE OF PROFIT", THE GRADUAL LIBERALIZATION UNCLASSIFIED

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OF IMPORT LICENCES AND EXCHANGE CONTROLS WITH THEIR
EVENTUAL ELIMINATION AT THE END OF THE THREE YEAR PERIOD,
AND LIBERALIZATION OF THE POLICY OF ISSUING WORK PERMITS
TO ATTRACT TO JAMAICA PEOPLE WITH SPECIAL SKILLS.

6. COMMENTS WILL FOLLOW BY SEPTTEL.
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